Retailers fight for lower credit-card fees as business group strikes deal

Business groups say the Canadian credit card fees are much higher than those in Europe and Australia, and can drive up consumer prices.

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Retailers and other businesses are pushing for lower fees from major credit-card companies amid a long standing battle over what many merchants say are inflated Canadian rates.

The two largest credit-card companies, Visa Canada and MasterCard Canada, charge businesses an average of 1.5 per cent of their transactions for accepting the plastic, with some interchange fees ranging to 2.5 per cent or more.

But business groups counter the Canadian rates are still much higher than those in Europe and Australia, and can drive up consumer prices. In Britain, for example, the rate is capped at just 0.3 per cent; in France, at 0.28 per cent; and in Australia, 0.5 per cent.

For its part, American Express Canada has even higher fees – between 3 per cent and 3.5 per cent for small merchants.

Now the Canadian Federation of Independent Business (CFIB,) which represents 110,000 small- and medium-sized enterprises, is set to unveil with JPMorgan Chase on Monday a deal to reduce Amex fees by almost 50 per cent – to 1.8 per cent – for some members in a bid to try to shake up the staid Canadian credit-card market.

"We think this will lead to an expansion of American Express coverage in the small-business marketplace therefore creating, we're hoping, some more competition between three major electronic payment companies, as opposed to the two big ones right now," said Dan Kelly, president of CFIB.

The Amex agreement is a sign of the fight that retailers and other businesses are waging for more affordable credit-card fees, a battle that was highlighted in 2016 when Walmart Canada Corp. stopped accepting Visa in its Thunder Bay and Manitoba stores after the discount giant complained the fees were "unacceptably high."

The standoff ended in early 2017 when Walmart reached an agreement with Visa to lower its fees to an undisclosed level – less than 1 per cent, according to sources – a far cry from what many small businesses pay and a reminder that they don't have the clout of the big players.

CFIB's deal with Amex follows one the group struck with MasterCard Canada last year that reduced most CFIB members' fees by 12.5 per cent to 1.26 per cent of the value of a customer's purchase from 1.44 per cent previously – the new levels being ones that are offered to just a small number of the country's largest merchants.

Still, other business groups say they don't want to negotiate special deals for their members with credit-card companies but rather call for federal policy changes to pave the way for broader fee reductions.

Businesses that accept the cards need a "substantial reduction" beyond the current fees, said Karl Littler, a vice-president at the Retail Council of Canada. "A credit-card duopoly dictates the rates," he said. "It drives up consumer prices."

In response to rising tensions between businesses and credit-card companies over the fees, federal Finance Minister Bill Morneau said in 2016 he would review the Canadian payments system.

A Finance Department spokesman, David Barnabe, said on Friday its officials are meeting with "several stakeholders including all major credit-card networks, card issuers, acquirers, merchant groups and consumer groups."

In 2014, Visa and MasterCard came to a voluntary agreement with Ottawa to shave their fees to an average of 1.5 per cent from more than 1.6 per cent and 1.7 per cent, respectively. Those rates went into effect for five years beginning in 2015.

The card companies have to do audits of their fees, but Gary Sands, chair of the Small Business Matters Coalition – another group of small businesses – says the audits should be done by third parties rather than internally.

Mr. Sands is also counting on the federal government to require lower fees rather than groups cutting preferential deals for their members.

He said credit-card companies provide large businesses such as Walmart and Costco Wholesale Canada attractive rates, resulting in them often charging small businesses higher fees to make up the difference. "Main Street is subsidizing Bay Street," Mr. Sands said. "They put us at a competitive disadvantage."

However, Richard Crone of payments specialist Crone Consulting said businesses should get more innovative and move to digital payments to reduce costs and connect better with customers.

With mobile payments, companies can steer their customers to use low-cost private-label credit cards or debit cards by tying in promotions and rewards, he said.

Walmart launched its mobile payment south of the border more than two years ago, helping the discounter gather data about its customers to use in its marketing and merchandising planning, he said.

While Walmart Canada doesn't offer the mobile wallet here, it is continually evaluating different programs, spokesman Rob Nicol said. On credit-card fees, he said the retailer strives to "negotiate the best possible terms with any supplier and every penny we save on credit-card fees allows us to lower prices for our customers.

"We continue to believe credit-card fees are excessive in Canada. Canadian merchants pay fees at least three times higher than what all merchants – big and small – pay in the 27 countries of the European Union. Our view is that fees should be lower for everyone. We support and want to work with all merchants that are calling for lower fees."

Under the CFIB agreement for lower fees with Amex, the group is teaming with Chase's merchant services for lower transaction fees for businesses using Amex's OptBlue payment processing, which Amex says is aimed at making it easier for small businesses to accept its cards.

The CFIB offer is available to roughly one-third of its current members who already use Chase, but Mr. Kelly said he expects more of them will switch to it and OptBlue to qualify for Amex fee reductions. He said he is still trying to negotiate a fee reduction with Visa. "They haven't said 'No.'"

A Visa spokesperson said it reduced fees for food retailers in 2016 to as low as 1.23 per cent and made changes for other small merchants last year "aimed at lowering costs." Visa will "continue to work with the government and other stakeholders to promote a competitive, efficient, innovative and secure payment system in Canada."

The card companies have said they need elevated rates to invest in technology and innovation in such initiatives as chip cards and contact-less payments.